



Patrick W. Henning, Director  
March 4, 2009  
22M:JEP:8065:8066



Arnold Schwarzenegger  
Governor

Mr. Michael Curran, Director  
North Santa Clara Valley Job Training Consortium  
505 W. Olive, STE 550  
Sunnyvale, CA 94086

Dear Mr. Curran:

WORKFORCE INVESTMENT ACT  
FISCAL AND PROCUREMENT REVIEW  
FINAL MONITORING REPORT  
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the North Santa Clara Valley Job Training Consortium's (NOVA) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Jennifer Patel from March 17, 2008, through March 20, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by NOVA with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of NOVA, a review of applicable policies and procedures, and a review of documentation retained by NOVA for a sample of expenditures and procurements for PY 2007-08.

We received your response to our draft report on October 17, 2008, and reviewed your comments and documentation before finalizing this report. Your response adequately addressed findings one cited in the draft report, no further action is necessary and we

consider the issue resolved. Additionally, your response adequately addressed finding two cited in the draft report, and no further action is required at this time. However, this issue will remain open until we verify the implementation of your stated corrective action plan during a future onsite review. Until then, this finding is assigned Corrective Action Tracking System (CATS) numbers 80215. Additionally, your response did not adequately address findings three and four cited in the draft report, and we consider these findings unresolved. We request that NOVA provide the Compliance Review Office (CRO) with additional information to resolve the issues that led to the findings. Therefore, these findings remain open and have been assigned CATS numbers 80216 and 80217.

### **BACKGROUND**

The NOVA was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, NOVA was allocated: \$799,324 to serve 201 adult participants; \$785,276 to serve 189 youth participants; and \$1,067,832 to serve 700 dislocated worker participants.

For the quarter ending December 31, 2007, NOVA reported the following expenditures and enrollments for its WIA programs: \$242,154 to serve 205 adult participants; \$229,974 to serve 111 youth participants; and \$516,836 to serve 790 dislocated worker participants.

### **FISCAL REVIEW RESULTS**

While we concluded that, overall, NOVA is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the area following areas: expenditure reporting, executive salary/bonus limitation, and expense payments. The findings that we identified in these areas, our recommendations, and NOVA's proposed resolution of the findings are specified below.

#### **FINDING 1**

**Requirement:** 29 CFR 97.20(b)(1) states, in part, that financial reporting must be accurate, current, and complete.

20 CFR 667.300(c) states, in part, that reported expenditures and program income must be on the accrual basis of accounting and cumulative by fiscal year of appropriation.

WIA Directive WIAD 06-4 states, in part, that for quarterly expenditures (including accruals) a separate expenditure report must be filled for each line item or grant code.

**Observation:** We found that NOVA does not report administrative and program accrued expenditures as separate line items to the Job Training Automation (JTA) system for all WIA grants. Specifically, NOVA tracks administrative and program accrued expenditures in their internal records but reports both administrative and program accrued expenditures on the accrued program expenditure line of the JTA expenditure report. As a result, administrative expenditures are reported in the program cost category.

**Recommendation:** We recommended that that NOVA provide the CRO with a corrective action plan (CAP), stating how it will ensure, in the future, that administrative and program accruals are reported separately to the JTA system on their respective cost categories. Additionally, we recommend that NOVA provide CRO documentation showing that administrative accruals have been reported appropriately in the JTA system for all WIA grants.

**NOVA Response:** The NOVA began reporting administrative cost accruals as a separate item in the JTA system as of the quarter end March 2008 reporting period. All WIA grant reporting has been compliant with this requirement since then and are available in the JTA system.

**State Conclusion:** The CRO ran JTA expenditure reports for all WIA programs starting March 2008 and ending December 2008, and verified that NOVA started reporting administrative and program accruals as of March 2008. This issue has been resolved.

## **FINDING 2**

**Requirement:** Public Law 109-234, Section 7013 states, in part, that no funds appropriated under this law or prior acts under the heading Employment and Training, shall, after the date of enactment of this section, be used by a recipient or subrecipient of such funds to pay the salary and bonuses of an individual, in excess of Executive Level II.

Training and Employment Guidance Letter (TEGL) 05-06 states, in part, that all WIA subrecipients must implement these requirements.

TEGL 05-06 (8) states, in part, that in instances where funds impacted by section 7013 pay only a portion of the salary, the section 7013-impacted funds may only be charged for the share

of the employee's time attributable to work on the section 7013-impacted grant or contract.

WIAD06-18 states, in part, that all subrecipients expending WIA program funds shall comply with federal requirements regarding the new limitations on salary and bonus limitations, which is set at \$168,000, effective January 1, 2007.

**Observation:** During our review, we noted that the salary/bonus payments for one executive exceeded the \$168,000 limit. Specifically, the executive made \$172,005 during calendar year 2007. The executive spent 96 percent of their time on Employment and Training Administration (ETA) related activities making the executive's allowable salary limit \$161,280. The NOVA charged \$165,124 to WIA programs, which resulted in \$3,844 over the allowable limit. The NOVA stated that they plan to charge the excess to a non-ETA funded grant.

**Recommendation:** We recommended that NOVA provide CRD with a CAP, stating how it will ensure, in the future, that Executive Level II salaries do not exceed the salary/bonus limitation. Additionally, we recommend that NOVA provide CRD with documentation showing that \$3,844 has been charged to a non-ETA funded grant and that WIA has been reimbursed this amount.

**NOVA Response:** The NOVA stated that the City of Sunnyvale sets the salary and compensation level for all positions. The NOVA will review staff compensation against this salary limitation requirement each year and make any necessary adjustments in the funding sources. The NOVA also provided a copy of the journal voucher and two accounting reports showing that WIA was reimbursed \$3,845 and that a non-ETA funded program was charged instead.

**State Conclusion:** The NOVA's stated corrective action should be sufficient to resolve this issue and no further corrective action is required. However, we cannot close this issue until we verify, during a future onsite visit, NOVA's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80215.

### **FINDING 3**

**Requirement:** Office of Management and Budget (OMB) A-87, Attachment B, Section 27 states, in part, that costs of meetings and conferences, the primary purpose of which is the dissemination of

technical information, are allowable. This includes costs of meals incidental to such meetings or conferences.

OMB A-87, Attachment A, Section (c)(1)(a) states, in part, that for a cost to be allowable it must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

OMB Circular A-87, Attachment A, Section (C)(2)(a) states, in part, that in determining reasonableness of a given cost, consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

**Observation:**

We found that NOVA purchased food and supplies for an All Staff meeting held September 21, 2007 from Chipotle, El Pollo Loco, and Pak n' Save totaling \$530.52. During the course of the day, employees were served breakfast, lunch, and snacks. In addition, staff attended three workshops and had the following workshops to choose from: service integration, process improvement/"just-do-its", re-naming the department, how to research information, your career: who's in charge, and excel basics. The NOVA provided a schedule of the day's events and an explanation of the sessions offered. However, NOVA did not provide documentation or an explanation of how these food expenditures are a necessary and reasonable cost for the administration of the WIA program. According to NOVA's accounting records, the \$530.52 was allocated to the adult, dislocated worker, youth, and STAR grants.

**Recommendation:**

We recommended that NOVA provide CRD with an explanation of how the \$530.52 expenditure for food for the All Staff Meeting was a necessary and reasonable cost for the administration of the WIA program. If NOVA cannot provide an adequate explanation, we recommend that NOVA reverse the \$530.52 in food costs from the WIA grants and provide documentation of its action to CRD.

**NOVA Response:**

The NOVA stated that an all-staff retreat is conducted annually. During this retreat, staff attends an off-site location for the full day. The purpose of this retreat is to provide training, do some team building and bonding, and have an enjoyable experience together to build morale.

OMB A-87 includes statements under the heading, - Employee morale, health, and welfare costs, - that support NOVA's practice. It states that the costs of expenses incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable. The City of Sunnyvale's policy for this type of retreat includes the purchase of food when it enhances the continuity of the event: "Food for staff meeting, staff training sessions or staff working lunches or dinners are prohibited. Meetings and trainings sessions should be scheduled in a manner that allows time for breaks and lunch. An exception is a staff 'retreat', approved in advance by the Department Director, in which a group of employees are confined together for an extended period of time for creative thinking wherein a lunch break would be counterproductive."

The NOVA also stated that as a City department, they comply with the policy and does not purchase food for any of the prohibited reasons, but is in compliance with both OMB A-87 and the host governmental agency's policies when doing so for our annual staff retreat.

**State Conclusion:** Based on NOVA response, we cannot resolve this issue at this time. Based on the definition NOVA provided above, it appears that the All Staff Day resembles a "staff meeting or training session", as it seems to focus on employee skill enhancement. By providing lunch and snacks during the All Staff Day, it appears that NOVA is not complying with its own procedures, as lunch is prohibited for staff meeting and training sessions. Additionally, the All Staff Day was held at NOVA's regular place of business. It is reasonable to expect that if NOVA staff are responsible for lunch when in the office, then they should also be responsible for lunch when involved in any "staff meetings or training sessions" that occur in the office. We recommend that NOVA reverse the \$530.52 in food costs from the WIA grants and provide documentation of its action to CRD. This issue has been assigned CATS number 80216.

#### **PROCUREMENT REVIEW RESULTS**

While we concluded that, overall, NOVA is meeting applicable WIA requirements concerning procurement, we noted an instance of noncompliance in the area of small purchases. The finding that we identified in this area, our recommendation, and NOVA's proposed resolution of the finding is specified below.

**FINDING 4**

**Requirement:** 29 CFR Section 97.36(f)(1) states, in part, that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action.

29 CFR Section 97.36(b)(1) states, in part, that grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulation provided that the procurements conform to applicable federal law and the standards identified in this section.

WIA Directive WIAD00-2 states, in part, that small purchases must be documented with a sales receipt, current catalogs with price lists, or formal quotes depending on the amount of the purchase.

**Observation:** We found that NOVA conducted just one price quote for two small purchases. Specifically, we reviewed two small purchases that had only one price quote:

- A \$267.30 purchase for an open-back economy table throw;
- A \$169.98 purchase for a book titled Accounting for Governmental and Non-profit Entities.

In the second example, an online query provided a cost of \$80.26 for the same book. It would appear that NOVA paid double the cost for the same item. A price quote could have provided NOVA this information and NOVA would not have paid an unreasonable or unnecessary cost for its purchase.

**Recommendation:** We recommended that NOVA modify its purchasing procedures to require more than one quote for purchases from \$1-\$1,000 and provide a copy of the revision to CRD. We also recommend that NOVA provide a CAP to CRD that will ensure that more than one price quote is obtained for all future small purchase transactions.

**LWIA Response:** The NOVA stated that their purchasing procedures have been modified to require more than one quote for purchases from \$1-\$1,000 where appropriate. The NOVA provided a copy of the updated procedures.

**State Conclusion:** Based on NOVA's response, we cannot resolve this issue at this time. The NOVA's updated procedures do not appear to be adequate. Specifically, NOVA added that more than one quote

will be obtained "where appropriate". The CFR does not provide for any type of discretion in the area of cost or price analysis. We recommend that NOVA modify its purchasing procedures to require more than one quote for procurement transactions. This issue has been assigned CATS number 80217.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Office your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than April 9, 2009. Please submit your response to the following address:

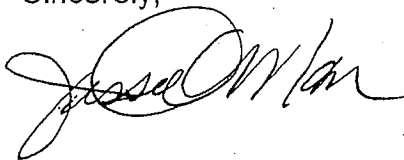
Compliance Monitoring Section  
Compliance Review Office  
722 Capitol Mall, MIC 22M  
P.O. Box 826880  
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is NOVA's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain NOVA's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Mechelle Hayes at (916) 654-7005 or Ms. Jennifer Patel at (707) 576-2017.

Sincerely,



JESSIE MAR, Chief  
Compliance Monitoring Section  
Compliance Review Office

cc: Terri Austin, MIC 50  
Daniel Patterson, MIC 45  
Jose Luis Marquez, MIC 50  
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